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011446Z Jul 03

UNCLAS SECTION 01 OF 02 HARARE 001339

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NAIROBI FOR CNEARY

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [ELTN](#) [ZI](#)

SUBJECT: ZIMBABWE CASH CRUNCH TIGHTENS

1. Summary: The shortage of local currency continues to worsen despite assurances by the Reserve Bank that more money is being printed. This, in addition to other widespread shortages in the country, has added to the burden of most Zimbabweans, who now need wads of low-denomination bills to procure basic necessities. It is apparent that most people prefer to keep their cash at home to avoid the disappointment of not getting any at the bank or being restricted to amounts as little as Z \$5,000 (US \$2.12) per withdrawal. End summary.

ILLEGAL TO CARRY LARGE AMOUNTS OF CASH

2. In another Alice-Through-the-Looking-Glass application of the law, some policemen are arresting people and confiscating the money of those who are in possession of large amounts of local currency. The police are arbitrarily demanding that people account for their money on mere suspicion that they could be involved in illegal transactions. The police seem oblivious to the fact that the local currency has lost so much value that US \$100 now exchanges for Z \$235,000 -- and is often only available in \$50 and \$20 notes. MP David Chapfika, the Chairman of the GOZ's Budget and Finance committee, was quoted stating "there is no need for anybody to be carrying huge stacks of money," and that all money belongs to the government anyway. We note for the record that the bank Chapfika once headed collapsed from insolvency in 2001.

3. The much-looked-for infusion of more than Z \$2 billion in Z \$500 notes, originally slated for the end of June, has not yet materialized despite GOZ-daily headlines to the contrary. Commentators across the board note that the GOZ should be printing \$1,000 (or even \$5,000) notes. Some reports indicate that a \$1,000 note may be introduced by November 1. Those reports also hint, however, that upon its introduction, all existing \$500 notes must be converted within a prescribed time period, after which they will no longer be legal tender. One local economist warns that if the GOZ limits the amount that an individual can convert (as has happened in other nations' banking catastrophes), the public stands to lose millions in capital while the GOZ stands to gain an immense windfall. The possibilities for corruption under such a scenario boggle the imagination.

MOST TRANSACTIONS NOW ON CASH BASIS

4. While a few banks use the availability of cash through their ATM machines as an incentive to account holders, even those sources have largely dried up. Commercial bank ATMs which previously offered maximum withdrawals of up to Z \$90,000 (US \$38.30) have been empty for the past week. Further, many of those banks which provided large amounts of cash through ATMs are commercial banks which cater to an upscale clientele. Due to structural differences such as transaction fees and minimum balances, most Zimbabweans hold accounts (and receive their paychecks) through building societies and the Post Office savings bank, which are more on a par with US homestead or savings & loan institutions. Unfortunately, it is these institutions -- which service the majority of the population -- that are struggling most with the cash shortage, since they have less access to cash than the commercial banks. During the past few weeks, it is routine to see queues of several hundred people lined up at each building society branch by 6:00 am. When the doors finally open at 8:00 am, the patrons are often limited to Z \$5,000 to Z \$10,000 (US \$2.13 to \$4.25) apiece.

5. Many businesses, including doctors and pharmacies, are now demanding cash instead of checks because of the downstream problems associated with withdrawing money from the banks. More and more shops and restaurants display announcements that checks are not accepted. Almost all fuel for individual motorists is now sold on the black market, and on a strictly cash basis. Public transport -- whether through commuter omnibuses or ride-sharing with a helpful motorist with extra seats -- is available only to those with

cash. Commercial banks now request their clients to make prior arrangements to withdraw large amounts of cash, which may take days or weeks to process. Traditionally, cash has become short at the end of the month as many employers process their payrolls on a monthly basis, with uniformed services drawing their pay first and civil servants last. At the end of the month, the queues grow longer, the cash supply becomes tighter, and the tempers of even normally placid Zimbabweans grow short.

COMMENT

16. The burden of the cash shortage falls primarily on ordinary Zimbabweans, and disproportionately on those least able to afford it. Many of the more affluent, including diplomats and other expatriates, are shielded to some degree, but even the Embassy's American employees are limited in the amount of cash they can obtain on a weekly basis. This week's accommodation exchange through the Embassy was US \$50; last week's was US \$40 (which is still more than many Zimbabweans make in a month). While this constitutes an inconvenience for Embassy employees, many locals are making the hard decision between spending their scarce cash on healthcare, food, or transport. It remains to be seen whether this situation is an aberration, rather than a new order of business, in the quagmire of the Zimbabwean economy.

Sullivan